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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Volume X, Number 7 March 8, 1986

INDUSTRIAL PRODUCTION FIGURES

Product	Jan 1986	% Jan 1986 over 1985
Electricity (bil.kw.hrs)	151	103
Petroleum (inc. gas condensate) (mil.tons)	51.0	100.7
Natural Gas (bil.cu.mtrs)	58.8	107
Coal(mil.tons)	65.9	105
Steel (mil.tons)	13.7	108
Fertilizer (mil.tons)	3.0	113
Metal-cutting tools (mil. rubles)	223	112
Robots	1103	158
Computer Technology (mil. rubles)	371	118
Tractors (mils.)	4.7	104
Paper (1000 tons)	538	113
Cement (mil. tons)	11.2	108
Meat(mil. tons)	1.1	114
Margerine (1000 tons)	135	104
Watches(mils.)	5.9	110
Radios(1000s.)	734	108
Television sets (1000s)	771	104
Automobiles (1000s)	114	99.9

SOVIET OIL PRODUCTION INCREASES

The big news is that oil production in January 1986 increased over that of January 1985. This again is a reflection of the crackdown on discipline and alcoholism by Gorbachev that we have referred to in the last several newsletters. As we predicted, oil production has responded to Gorbachev's purge of personnel. It is necesary to point out that in January 1985, the weather was unusually cold and that undoubtedly had an impact in the drop in production. It should also be noted that production in January 1986, while an improvement over 1985, is still below what it was in 1984, 1983, 1982, and 1981. Moreover, the 51 million tons represents 98% of what had been planned. The Soviets report that they had expected to produce another 1.2 million tons. However, the important point is that production did increase and the expectation is that it should do even better in the next few months.

Generally production is considerably more robust this January than it was in January 1985. For example, not only is there a increasein oil production, but there is significantly improved output in coal and steel. Coal production is up 5% and steel 8%. Those figures have not been as high since the 1970s. Particularly worthy of note is the fact that meat production was up 14%. Apparently

there was a good deal of premature slaughtering that was taking place. The figure however, is a bit of a mystery because there were significant meat shortages in the Soviet Union in recent weeks.

Normally we do not report these figures because there is some reason to wonder about how valid they are, but it also should be noted that the Soviets report that the general volume of industrial production was up 6% this January compared to last year, and that labor productivity had increased 5.6%. Again, these are indices and therefore, suspect, but it certainly reflects well on Gorbachev.

LIVESTOCK HERDS

As opposed to the January 1st comparisons, when the hog herd had also dropped, the figures for February 1 show that the hog herd has again begun to increase. However, except for chickens, the other herds are down. There was an intriguing article in Izvestiia on January 26, which explained in part why the herds sometimes vary as much as they do.

LIVESTOCK HERDS (Millions)

	Feb 1 1985	Feb 1 1986	% Change
Cattle	94.5	94.1	99.5%
Cows	29.5	29.1	98.6%
Hogs	58.6	58.9	100.5%
Sheep & Goats	117.3	115.7	98.6%
Chickens	722.2	740.2	102.5%

US, EAST EUROPEAN AND SOVIET TRADE BALANCES

As the material from the Department of Commerce indicates, US exports to the Soviet Union in 1985 fell by $800 million. That was largely due to a reduction in grain exports, and as other Department of Commerce data indicate, this fall was a born almost entirely by a billion dollar reduction in the amount of wheat we exported in 1985, compared to 1984. Offsetting that slightly is an increase in corn exports of about $100 million. At the same time, US imports from the Soviet Union dropped by slightly over $150 million. That too was accounted for primarily by one commodity and that was petroleum. This, by the way, was a pattern that was reflected in all Soviet exports. There was a relatively sharp drop in the export of petroleum. As a consequence of both the reduction of imports and exports, the US trade surplus with the Soviet Union was reduced to $2 billion, compared to $2.6 billion the year before.

Our trade relations with Eastern Europe also show a drop in both exports and imports. However, the declines basically offset one another so our trade deficit with Eastern Europe remains the same, approximately $900 million. Again, one of the main imports is petroleum, again largely from Romania, and our largest export continues to be grain.

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THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed.

RRC @ 1986

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02/10/86
18:06:55

All items in U.S. domestic exports to USSR,
1981, 1982, 1983, 1984, and 1985

(F.a.s. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals	1,600,140	1,642,161	1,194,970	2,585,083	1,728,525
1	Beverages & tobacco	400	2,979	874	1,264	8,732
2	Crude mat'l--inedible,not fuel	59,350	214,249	264,583	224,263	90,180
3	Mineral fuels, lubricants, etc	62,840	90,013	22,571	30,045	54,538
4	Oils & fats--animal & veg prod	56,089	40,565	21,507	38,872	63,927
5	Chemicals	180,220	287,846	239,398	208,219	281,634
6	Man'd goods by chief material	32,871	25,961	29,755	16,573	9,570
7	Machinery & transport equip	300,814	225,458	149,452	110,221	111,926
8	Miscellaneous man'd articles	45,371	59,129	76,422	65,908	70,898
9	Commodities & transactions nec	722	614	2,419	2,205	2,017
	Total	2,338,818	2,588,975	2,001,951	3,282,652	2,421,948
	Total, all items exported to USSR	2,338,818	2,588,975	2,001,951	3,282,652	2,421,948

Source: Compiled from official statistics of the U.S. Department of Commerce.
Note: Trade does not include special category exports.

02/10/86
18:04:28

All items in U.S. imports for consumption from USSR,
1981, 1982, 1983, 1984, and 1985

(C.i.f. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals	2,841	5,413	18,054	17,415	12,856
1	Beverages & tobacco	9,273	11,000	12,923	9,997	12,249
2	Crude mat'l--inedible,not fuel	19,522	10,049	12,075	19,353	15,809
3	Mineral fuels, lubricants, etc	110,898	10,946	59,158	202,563	106,076
4	Oils & fats--animal & veg prod	25	6	1	12	44
5	Chemicals	112,641	131,374	161,121	235,014	216,833
6	Man'd goods by chief material	103,479	63,349	91,304	107,794	64,875
7	Machinery & transport equip	2,677	1,624	3,750	2,874	4,646
8	Miscellaneous man'd articles	2,980	9,156	6,381	4,566	3,502
9	Commodities & transactions nec	22,707	5,277	2,341	2,494	3,686
	Total	387,041	248,195	367,107	602,081	440,577
	Total, all items imported from USSR	387,041	248,195	367,107	602,081	440,577

Source: Compiled from official statistics of the U.S. Department of Commerce.

02/10/86
18:08:24

All items in U.S. domestic exports to EASTERN EUROPE,
1981, 1982, 1983, 1984, and 1985

(F.a.s. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals	1,372,971	474,670	321,173	277,073	196,770
1	Beverages & tobacco	26,503	11,245	21,763	10,929	14,853
2	Crude mat'l--inedible,not fuel	176,576	206,588	254,519	323,471	147,554
3	Mineral fuels, lubricants, etc	41,107	17,399	16,201	32,415	85,973
4	Oils & fats--animal & veg prod	14,389	16,465	13,482	10,307	4,254
5	Chemicals	77,267	79,105	67,305	67,911	88,055
6	Man'd goods by chief material	30,088	23,060	25,080	22,192	24,188
7	Machinery & transport equip	122,567	107,618	85,010	75,373	133,207
8	Miscellaneous man'd articles	28,090	35,935	27,638	22,794	27,452
9	Commodities & transactions nec	8,472	24,301	44,525	41,731	48,306
	Total	1,898,029	996,387	876,695	884,198	770,611
	Total, all items exported to EASTERN EUROPE	1,898,029	996,387	876,695	884,198	770,611

Source: Compiled from official statistics of the U.S. Department of Commerce.
Note: Trade does not include special category exports.

02/10/86
18:06:06

All items in U.S. imports for consumption from EASTERN EUROPE,
1981, 1982, 1983, 1984, and 1985

(C.i.f. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals	196,227	146,570	178,045	179,369	206,033
1	Beverages & tobacco	27,128	26,604	38,617	29,818	25,887
2	Crude mat'l--inedible,not fuel	15,895	9,791	10,267	8,731	8,809
3	Mineral fuels, lubricants, etc	160,527	105,946	296,283	537,022	461,030
4	Oils & fats--animal & veg prod	1,105	453	0	3	46
5	Chemicals	39,969	36,886	60,557	132,758	196,924
6	Man'd goods by chief material	365,165	163,683	173,847	428,120	333,275
7	Machinery & transport equip	254,859	159,501	116,828	160,639	161,702
8	Miscellaneous man'd articles	232,233	241,235	219,945	267,158	249,660
9	Commodities & transactions nec	4,084	7,407	4,491	5,361	10,551
	Total	1,297,193	898,076	1,098,880	1,748,980	1,653,916
	Total, all items imported from EASTERN EUROPE	1,297,193	898,076	1,098,880	1,748,980	1,653,916

Source: Compiled from official statistics of the U.S. Department of Commerce.

THE OLIN FOUNDATION NATIONALITIES SEMINAR

BARBARA ANDERSON AND BRIAN SILVER, FEBRUARY 3, 1986

"THE POLITICS OF LANGUAGE AND PATTERNS OF LANGUAGE CHANGE IN THE SOVIET UNION"

Drs. Anderson and Silver focused on two related topics: patterns of language change in the USSR, particularly the growth of bilingualism, as well as linguistic Russification; and changes in ethnic self-identification, as reflected in the censuses of 1959, 1970 and 1979.

Between the 1959 and the 1979 census periods, the majority of the Soviet population retained their national languages as their native language (1959-87.6%, 1979-85.6%). Although a small shift in the use of Russian as a native language did occur in this period (increasing from 10.8% to 13.0% between 1959 and 1979), the major change which occurred was in second language facility; between 1970 and 1979 alone, the percentage of the population which claimed Russian as a second language increased from 37.1% to 49.1%. The general trend in the last thirty years, therefore, is toward bilingualism rather than linguistic Russification.

Given this trend, one must examine Soviet language policy and attempt to establish whether this policy has had a direct impact on patterns of language change. The heyday of the national schools took place between 1934 and 1940; since then, a gradual reduction in native language instruction has occurred. All the republic nationalities have native language textbooks through the tenth grade. For autonomous republics and autonomous oblasts, native language is increasingly taught as a subject of study, while it is less often used as the primary medium of instruction. For smaller nationality groups, native language instruction has decreased both as a subject of study and as the primary medium of instruction. All of this implies a balanced approach rather than a policy of intensive Russification in the schools.

Therefore, it appears that a political principle - the relative standing of a group within the federal structure - plays a determining role in language policy in schools. The efficiency principle is also at work here; the federal divisions between nationality groups is largely synonomous with the size of the group. It seems that before WWII, the efficiency principle was the primary determining factor in language policy; while it continues to be significant at present, the political principle has grown in relative importance.

The size of a population group will change over time in response to four factors: fertility, mortality, migration and assimilation. Several nationality groups experienced a net loss in population between 1959 and 1970 due to ethnic reidentification. Only the Russians and the Georgians experienced a net gain in population size. All of those who reidentify ethnically do not necessarily reidentify as Russians; for example, Bashkirs most often reidentify as Tatars. Those groups with a significant net loss in population size tend to be non-Muslim, autonomous republic level groups; union republic level nationalities have a much lower rate of reidentification.

All of these trends may be explained by a combination of social, demographic, political and historical factors. Drs. Anderson and Silver argue that the primary determining role in ethnic and linguistic assimilation is played by social and demographic factors, rather than any state Russification policy. Thus, considerations of social efficiency have led to the growth of bilingualism, rather than linguistic assimilation. The percentage of a given population which claims Russian as a second language strongly correlates with the level

of contact that population group has with Russians. Over seventy percent of the variation in the knowledge of Russian as a second language can be accounted for by the level of contact with Russians, religion, and urban/rural differentials. Use of Russian strongly correlates with a group's level of urbanization. In the case of the Muslim groups, however, religion acts in some ways as an "ideological filter", reducing the impact of contact with Russians on language use.

The high rates of Russification among some groups must also be sought in socio-historial factors. A key triggering mechanism could have been the male-female differentials resulting from WWII. The Balts and Slavs suffered heavy male losses during the war, yet the non-Muslim, autonomous republic level nationalities suffered even greater losses. Such male deficits led to a higher rate of ethnic intermarriage, especially with Russians.

All of these conclusions indicate that Soviet state policy has had little effect on linguistic and ethnic assimilation by the non-Russian nationalities. It has merely compounded those social and demographic factors which have led toward increasing bilingualism.

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FINAL CORPORATE SPONSOR SEMINAR OF THE YEAR

The final Corporate Sponsor seminar of the year will take place on Monday, May 5th. The focus of this conference will be negotiation with the Soviets. A copy of the preliminary program and application form is included. This program is being organized by two of our Mid-Career fellows, Charalambos Vlachoutsikos and Lee Kjelleren. There is also the possibility that we will have a supplimental evening session which will be addressed by someone from the Soviet Union. We hope to have more concrete information about that in our April newsletter.

THE SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

Perhaps the most notable feature of the Soviet balance of trade with Eastern Europe is that for the first ten months of 1985, Romania has built up a rather substantial trade surplus of 300 million rubles. That contrasts sharply with most earlier years, except for 1982, when the trade balances between the two countries were nearly equal.

It is also worth noting that the Soviet Union's exports to Poland have increased somewhat larger than Poland's exports to the Soviet Union so that the Soviet Union once again has a rather trade surplus with Poland, this time amounting to almost 900 million rubles.

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ARDEN HOUSE

This will be the last newsletter before the Arden House Conference. We are happy to report that we have added some new speakers to the program. Senator John Chafee from Rhode Island will be joining us, along with Senator Simon and Senator Sarbanes. Also, Congressman Dante Fascell, the chairman of the House Foreign Affairs Committee will be joining us just before he makes a visit to the Soviet Union.

Preliminary applications make this look like it will be one of the best attended conferences we have ever had. However, because Arden House has expanded its housing accomodations, there is still room for others who may want to send in their applications.

The Boston Globe

SUNDAY, FEBRUARY 23, 1986

THE SOVIET UNION

Changes in the air

Gorbachev cleans house

By Marshall I. Goldman
Special to the Globe

Whether accidental or intentional when Mikhail Gorbachev opens the 27th Congress of the Communist Party of the Soviet Union on Tuesday, it will be 30 years to the day that Nikita Khrushchev denounced Stalin at a similar party congress. While no Russian I met during a recent trip to the Soviet Union was aware of the coincidence until I mentioned it, and while almost all insist that Khrushchev is still held in low repute, nonetheless his policies, if not his reputation, are experiencing a revival. In contrast, Brezhnev and his era are being openly criticized. This has reached the point where the views of American Sovietologists, like me, who until recently were banned from the Soviet Union because of what we wrote during the Brezhnev era, are now regarded by at least some officials as models for what Soviet critics should have been candid enough to say at the time.

Gorbachev himself has set the tone for the new spirit of openness and self-criticism. In a notable New Year's message to the Soviet people he said: "Today, we describe things as they are. Successes are successes, failures are failures and mistakes are mistakes. That is the best cure for arrogance and smugness."

To watch Gorbachev clean house of the old, the inefficient and the corrupt is breathtaking. In 11 months' time, he has replaced 18 of the 40 ministers dealing with the economy, 45 of the 59 first secretaries of the regional communist parties (recently referred to as "the local tyrants") and four of the first secretaries of the 14 major republics. That is beyond and above those such as Vladimir Sushkov, who, until December, was deputy minister of foreign trade and the genial and powerful Soviet host of the US-Soviet Trade and Economic Council meeting held in Moscow in December. Allegedly, he had the bad luck to be caught smuggling in video tapes and thousands of dollars of cash from over-eager Japanese salesmen. According to several reports, he is now sitting in a Moscow jail, charged with soliciting bribes.

But despite all Gorbachev's talents, his undisputed power and his repeated calls for economic revitalization (I was corrected when I used the word reform – something Gorbachev never says), no one I spoke to seemed to know exactly what he intends to do with the economy. He has set loose a flood of proposals and experiments, the likes of which we have not seen since Khrushchev's era. And, intriguingly, many of the things being done now bear a strong similarity to what Khrushchev did then, even though, as a package, Khrushchev's efforts have been attacked as "hare-brained ideas."

Khrushchevian signs from the past: Ministries are again being broken up, and the Moscow bureaucrats told to head to the provinces; economic powers are being transferred to the regions away from Moscow in order to lessen Moscow's control over all economic affairs; enterprises are being authorized to take more initiative at the local level; government and party officials are being purged in order to bring in new talent and political support; and there are even calls again for the planting of corn to replace the wheat that is currently being fed to the livestock.

This Khrushchevism without Khrushchev does not mean that Gorbachev's policies are consistent or well thought out. Many of them are as unlikely to be successful now as they were in Khrushchev's day. They threaten as many interests now as they did then, particularly among those who fear the centrifugal forces that might be unleashed by shifting power from Moscow to the provinces.

In fairness to Gorbachev, he has not limited himself or his advisers to initiatives from the past. In order to stimulate productivity, at least some senior advisers to Gosplan (the state planning organization) in an article in the newspaper Sovetskaia Kultura have raised the prospect that the Soviet Union might yet have to deal with widespread unemployment. Heretofore only a few venturesome factory managers have contemplated such a drastic measure. Admittedly, the idea of widespread reshuffling of jobs is in the trial-balloon stage. Except for a few Soviet officials who had been queried by their embassy in Washington about the article, no Soviet officials I met had read or heard about the article, which raised the spectre of 13 million to 19 million job reassignments.

Yet the appearance of such an article, along with the firings that have occurred in the ministry of agriculture and a proposed 30 percent staff reduction in at least one of the major Moscow research institutes, indicate that this may be more than just a random experiment.

Gorbachev's advisers are also looking more closely at some of the reforms introduced elsewhere in the communist world. The formation of large industrial kombinats (large holding companies) in the German Democratic Republic seems to be particularly appealing to them, the market-oriented reforms of Hungary less so. Until recently, Chinese reforms were also strongly criticized, but, while in Moscow, I learned that a special commission has been formed to see what in the Chinese experience under Deng might be useful for the Soviet Union.

The concern among the more thoughtful economists is whether all these diverse measures can be ultimately coordinated so as to make meaningful changes in the economic system and reduce the growing technology gap that an increasing number of Soviet officials have come to acknowledge.

After only 11 months in control, it is still too much to expect that Gorbachev or anyone can resolve all these dilemmas so soon. Yet he has raised expectations. Initially, this can be used to his advantage – but only if he can resolve these dilemmas. Otherwise, this sense of heightened expectation may ultimately prove to be disadvantageous.

Marshall I. Goldman is a professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard.

Mikhail Gorbachev. AP PHOTO

Recalculations Put Gorbachev & Co. Deeper in the Hole

By Vladimir Kontorovich
And Boris Rumer

Recent writings by a handful of Soviet economists explode some of the most sacrosanct myths about the Soviet economy. They argue that official statistics lie; that inflation has been higher, and growth lower, than the data show; and that, as a result, the whole picture of the Soviet economy is distorted. That such statements can appear in the Soviet press at all (most recently, in the main party newspaper, Pravda) demonstrates how alarmed the Soviet authorities are by their economic situation, and how desperately they are looking for solutions.

While the Soviets are always ready to castigate a particular firm for padding its reports, data for the whole economy are beyond criticism. Historically, official statistics showing high growth rates and price stability were important in legitimizing the regime and presenting it as an example to be followed by other countries. Yet the recent writings dub official data as misleading and untruthful, and point to the Central Statistical Administration as the perpetrator of deceit. Soviet economist S. Solomon Kheinman declares that aggregate data, especially time series, contain "hidden lies."

The official line is that an absence of inflation, the scourge of modern capitalism, is one of the advantages of the planned economy. There can be no inflation, since the prices of all the products are fixed by the authorities. Yet industrial firms are interested in higher prices for their products; this makes it easier to reach higher volumes of output in money terms and to increase accounting profits. So when the firms introduce new products, they propose vastly inflated prices for them. Often, the product is new only in name, or has purely cosmetic improvements; its introduction is merely a pretext for raising the price. The authorities who have to approve the proposed prices are so overloaded with requests that they validate whatever prices the firms propose. The resulting inflation is not acknowledged by the Soviet statistics. Officially, high prices of new products reflect their improved quality.

Soviet economists now come up with estimates of the rate of this sort of inflation. The latest one, published in Pravda, suggests that prices of investment goods and services have been growing at about 4.5% a year for the past quarter of a century. But the significance of such estimates goes much further than the question of inflation under central planning.

Official data that do not account for hidden inflation are not cooked especially to mislead the outsiders. These are the same data that are used by the Soviet planners to allocate resources in the economy. Obviously, decisions based on faulty data cannot be correct.

Real declines in economic indicators have been disguised by hidden inflation to appear as increases. The Pravda article states that real investment in the steel industry has been falling during the past 10 years. It follows from the estimates in this and other texts that all real investment has been falling in the past 10 years, whereas official data show it as increasing. On the brighter side, capital productivity did not decline nearly as much as official data show.

The size of the Soviet economy and its growth rate are important for policy makers in the West. They commit resources to make estimates of Soviet growth that are supposed to be free of the shortcomings of the official data. Much of the quantitative analysis, modeling and forecasting of the Soviet economy in the West is based on these revised estimates. Western estimates of Soviet growth have been systematically lower than the official ones. Yet, if one believes the recent writings of Soviet economists, these estimates may still have been overestimates, especially in the past 10 years.

Indeed, in the past 10 years, as inflation was accelerating in the Soviet Union, the gap between the real growth rates and the official ones must have widened. Western estimates, on the contrary, were getting progressively closer to the Soviet official data. One cannot build an estimate of Soviet gross national product without using Soviet data. And some of the official Soviet data that are used as building blocks in the Western estimates are the ones most distorted by hidden inflation. Also, since the mid-1970s, the Soviet Union has been curtailing the amount of economic data it publishes, making the task of Western analysts harder.

If Soviet growth has been slower than estimated, actual GNP must be lower than thought. Relating defense expenditures, which are estimated separately, to a smaller GNP would make for a higher burden of defense on the Soviet economy. Since hidden inflation affects the manufacturing sectors and spares mining, utilities and agriculture, it also distorts our image of the structure of the economy, making it look more advanced than it is.

Finally, the alternative Soviet estimates throw a different light on the situation facing the new Soviet leader. It is one thing to preside over an economy where real investment is growing, and quite another where it has been shrinking. The urgency of changes in the economy, the affordability of countering Star Wars, and other strategic questions look different in light of the alternative estimates. Mikhail Gorbachev probably does not look at any economic data except the official figures. But he is aware of the real situation, when it comes to apportioning resources and comparing real yields to money spent. The alternative Soviet estimates may give a better indication of the choices the leader faces.

Mr. Kontorovich heads Command Economies Research Inc. in Princeton Junction, N.J. Mr. Rumer is a research associate at Harvard's Russian Research Center.

THE WALL STREET JOURNAL.

February 27, 1986

What Defense-Spending Gap?

By Franklyn D. Holzman

MEDFORD, Mass. — President Reagan is again asking for more military spending, and, as before, he partly bases his case on an overstatement of Soviet military outlays.

When he said Thursday in his television address that the Soviet Union had invested $500 billion more in its military than the United States had since 1970, he was playing the same tune he played in February 1981, when he said, "Since 1970, the Soviet Union has invested $300 billion more in its military forces than we have." In March 1981, the Central Intelligence Agency updated this estimate to $420 billion. But a proper accounting and interpretation of both sides' military outlays indicates that, in fact, the West outspent the Eastern bloc by $740 billion from 1971 through 1980. Actually, Mr. Reagan was off by more than $1 trillion. Let me explain.

The C.I.A. makes many economic comparisons of the two superpowers, calculating its estimates in dollar and ruble prices. Its comparisons are almost always presented, properly, as an average, for dollar comparisons exaggerate Soviet outlays and ruble comparisons exaggerate ours, partly because of wide differences in prices between the countries. However, the C.I.A.'s comparison of military outlays remains a glaring exception to its standard practice. While a ruble estimate is calculated and the figure is made public, no dollar-ruble average is presented. Press releases, hearings and media coverage ignore it and concentrate on the dollar comparison. This exaggerates Soviet military spending relative to ours — as the C.I.A. often has admitted.

An adjustment for this exaggeration reduces the $420 billion "gap" by $100 billion.

Second, the C.I.A. said in 1984 that it had overestimated Moscow's 1976-to-1982 military spending by assuming a 3 percent to 5 percent annual growth rate in that spending when in fact it had been only 2 percent.

Deduct $30 billion more from the "gap."

Third, in comparing outlays, the Pentagon has subtracted money spent on our Vietnam War effort from our total, on the sound basis that the war was not part of our confrontation with the Soviet Union. Similarly, we should not calculate the Soviet Union's outlays for its problem with China, for they are not part of the Soviet confrontation with us. Moscow might ask, How much more would Mr. Reagan be spending if a million-man Chinese Army was poised on America's border and there were a billion people just behind that army? Various C.I.A. and Pentagon estimates suggest that 15 percent to 20 percent of Soviet military spending has been directed at China.

C.I.A. data on Soviet costs are befogged

Subtract $230 billion — 15 percent of Moscow's 10-year total military spending of $1.530 trillion — from the C.I.A.'s $420 billion "gap."

These three revisions leave the United States with an adjusted 10-year difference of about $60 billion — a trivial sum over a decade.

Fourth, the purveyors of the "gap" dogma pretend the world consists of two superpowers. But America is joined by the North Atlantic Treaty Organization; the Soviet Union harnesses six countries in the Warsaw Pact. NATO's other 15 members include most of the industrial democracies, and three of them — Britain, West Germany and France — each spends more on weapons annually than all six smaller Warsaw Pact countries do together.

Over the 10-year period ending in 1980, NATO, excluding the United States, outspent the Warsaw Pact, excluding the Soviet Union, by $800 billion. Subtracting from this amount the $60 billion by which the Soviet Union outspent America results in an overall NATO-Warsaw Pact gap of $740 billion — in our favor.

To summarize, in 1981 the Reagan Administration wound up claiming the Soviet Union had outspent the United States by $420 billion from 1971 through 1980. In fact, all NATO members outspent all Warsaw Pact members by $740 billion. This difference (from a negative $420 billion "gap" to a positive $740 billion gap) adds up to $1.16 trillion — what might be called the Reagan misinformation gap.

Moreover, an adjusted American-Soviet 10-year gap of $60 billion was trivial when we consider how far behind us in military strength the Russians were in 1970. Further, President Reagan's $80 billion addition to the supposed 1971-1980 gap (when he elevated it last Thursday to $500 billion from $420 billion) is more than neutralized by Soviet outlays directed against China since 1980.

In evaluating the President's new defense budget requests, Congress should take these disparities into consideration. If, indeed, the Soviet Union and its Warsaw Pact allies are catching up, then the Pentagon and its NATO counterparts cannot be making very good use of the funds they have been allocated. □

Franklyn D. Holzman, professor of economics at Tufts University and a fellow at the Russian Research Center, at Harvard University, is author of "Financial Checks on Soviet Defense Expenditures."

Article appeared in the March 4, 1986 New York Times

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
FOR THE 1ST NINE MONTHS OF 1981-1985

(in million rubles)

	Exports from U.S.S.R.					Imports to U.S.S.R.				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Bulgaria	3225	3546	4141	4661	4788	2751	3245	3720	4122	4425
Czechoslovakia	3108	3728	4270	4948	5002	3060	3513	4018	4422	4806
GDR	4037	4587	4992	5385	5619	3861	4270	4879	5576	5619
Hungary	2445	2711	2951	3298	3318	2413	2710	2957	3178	3513
Poland	3667	3581	3868	4450	4804	2419	2882	3465	3843	3960
Romania	1111	1013	1199	1352	1351	1237	1323	1280	1340	1657
	17,593	19,166	21,421	24,094	24,882	15,741	17,933	20,339	22,481	23,980
Balance of Trade	+1852	+1283	+1082	+1613	+902					

WHY THE SOVIETS ARE SERIOUS ABOUT ARMS CONTROL

by Jerry Olek

In September, at the conclusion of his Time interview, General Secretary Gorbachev made a statement which did not get much notice in the West. He said, "I don't remember who, but somebody once said that foreign policy is a continuation of domestic policy. (Coincidence, or not, Richard Pipes said something very similar to this in the forward to his book, Survival Is Not Enough, page 12.) If that is so, then I ask you to ponder one thing: If we in the Soviet Union are setting ourselves such truly grandiose plans in the domestic sphere, then what are the external conditions that we need to be able to fulfill those domestic plans? I leave the answer to that question to you." Those who did not get the message needed to ponder only until Gorbachev's visit to France in early October. After describing the main objective of his domestic policy as the accelerated social and economic development of Soviet society, he added that "it is not difficult to see that the paramount conditions for attaining these ends are not only reliable peace but a calm, normal international situation. And it is these priorities that determine our foreign policy. .." Can these statements be written off as empty rhetoric designed to enhance the new Soviet leader's image as a man of peace and to woo Americans, Frenchmen and others into a false sense of security? A look at economic developments in the Soviet Union over the last several years suggests not. The economy is clearly at a critical juncture and Soviet leaders are trying to pull it out of a protracted period of stagnation and a declining rate of growth. It is arguable whether the economy is undergoing growing pains as it progresses to the next higher technology intensive stage or if it is exhibiting the first signs of old age and permanent decline.

What is clear is that some of the "truly grandiose plans" Mr. Gorbachev mentioned in his Time magazine interview are already being implemented. Whether these and other measures needed to turn the economy around can be continued, depends in large measure on a reduction, or, on a leveling off of resources allocated to arms production. The Soviets have probably concluded that the only acceptable way to accomplish this is to cap the arms race. Their strident objections to SDI are based at least partially on the realization that development of countermeasures, let alone of an equivalent system, would have a devastating effect on their already deeply troubled economy.

The plans already being implemented include what the Soviets refer to as the Food Program, the Energy Program, the Consumer Program and the modernizing of remaining sectors of the economy. Soviet literature indicates that these programs are very ambitious and expensive. It is also clear that high priority is being given to at least some of these programs and there are hints that the traditional priority afforded to production for the Soviet military has been, at least for the near term, reduced.

What does all this mean for arms control? The Soviets are at a point in their economic development where continued heavy investment in weapons production is no longer in their national interest. They have evidently been at this point for some time. Mr. Gorbachev is merely the first leader to enunciate the policy change. Arms control is essential to create the conditions needed to facilitate the Soviet economic recovery. This does not mean that the Soviet economy is so weak that the Politburo will accept any offer, but it almost certainly means that the USSR is serious about arms control.

U.S. DEPARTMENT OF STATE
RUSSIAN RESEARCH CENTER,
HARVARD UNIVERSITY

WILLIAM AND MARY GREVE FOUNDATION

NEGOTIATING WITH THE SOVIETS

Harvard Faculty Club
20 Quincy Street
Cambridge MA 02138

9:45 a.m.

I. Adam Ulam, Director, Russian Research Center, Harvard University
"The Historical Background of US-USSR Negotiating Experience"

10:10 a.m. II. Private Sector Panel

Mr. James Giffin, President, US-USSR Trade and Economic Council
Mr. Ara Oztemel, Chairman of the Board, SATRA Corporation
Mr. Robert Schmidt, Earth Energy Systems
Mr. Charalambos Vlachoutsicos, Chairman of East/West Committee of the Hellenic Chapter of the International Chamber of Commerce, Paris

12:15 p.m. LUNCH

1:45 p.m. III. Government Sector Panel

Ambassador Walter Stoessel, Former Ambassador to the USSR and Under-Secretary of State
Mr. Helmut Sonnenfield, Guest Scholar, The Brookings Institute
Dr. Dimitri K. Simes, Fellow, Carnegie Endowment for International Peace

2:30 p.m. COFFEE

2:45 p.m. IV. Cultural and Social Panel

Mr. Alex Kassoff, Director of the International Research and Exchange Board (IREX)
Professor Howard Raiffa, Professor of Business Administration, Harvard Business School and former Director, International Institute of Applied Systems Analysis (IIASA), Vienna
Professor C. C. Lamberg-Karlovsky, Curator of Middle East Archaeology, Professor of Anthropology, and Director of the Peabody Museum (currently organizing an excavation in Soviet Central Asia)

4:45 p.m. ADJOURN

U.S. DEPARTMENT OF STATE
RUSSIAN RESEARCH CENTER,
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WILLIAM AND MARY GREVE FOUNDATION

NEGOTIATING WITH THE SOVIETS

Monday, May 5, 1986
Harvard Faculty Club
20 Quincy Street, Cambridge MA 02138

Please enroll me as a participant

NAME _____
Last First Middle

TITLE _____

AFFILIATION _____

ADDRESS _____
Street City State Zip code

Telephone _____

HOTEL RESERVATIONS: I will/will not need hotel reservations for the following dates: ( ) May 4(Sunday night) ( ) May 5 (Monday night) Rates vary from $65 to $92 per night. We will reserve you a room at the lowest rate still available.

ADMISSION: $150.00 (one hundred fifty dollars) per participant
PLEASE MAKE CHECKS PAYABLE TO HARVARD UNIVERSITY
Fee covers all meals and beverages

Please return form and check to:

Catherine Reed, Russian Research Center, Harvard, 1737 Cambridge Street, Cambridge MA 02138 ((617) 495-4037)

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The RRC is currently in the process of organizing a supplementary program for the evening of May 5 (6:30 - 9:30 p.m.) featuring a guest speaker from the Soviet Union, who will speak on the topic of negotiating with the West. There will be a registration fee of $50. If you are interested in attending, please indicate so below.

( ) Please send me more information on the evening program.